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Product Brief

Pet Food Market Research on the Japanese Market 2003

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SECTION I. MARKET OVERVIEW

The Japanese market for pet food for cats and dogs was estimated at 246.2 billion Yen (\$2.01 billion *) in 2001 based on the sales price of pet food companies to their first-line customers. Dog food accounted for 58% of the total market with 2001 sales of 142.2 billion Yen (\$1.16 billion) and cat food accounted for 42% with 2001 sales of 104.0 billion Yen (\$851 million).

The quantity of imported cat and dog food in 2001 was 469,946 MT with a C&F Japan value of 74.1 billion Yen (\$606 million). On a tonnage basis, imported pet food accounted for 60% of total cat and dog food consumption in Japan in 2001.

The U.S. is the leading exporter of cat and dog food to Japan with 45% share of total exports in 2001. Exports of pet food products from the U.S. were 199,423 MT in 2001 valued at 33.3 billion Yen (\$273 million) CNF Japan basis.

It is estimated by the Pet Food Manufacturers Association that there are currently 9.8 million dogs and 7.5 million cats kept as pets in Japan.

The cat and dog food market has been forecasted to grow at about a 2% rate over the next few years as the number of pet owners purchasing pet food rather than feeding table scraps continues to increase.

Exports of U.S. Pet Food Products

Advantages	Disadvantages
U.S. is a low cost supplier of dry and wet dog and dry cat food	The Japanese pet food market is highly price driven and hard for new-to-market companies to successfully penetrate
U.S. has a reputation as a reliable supplier of pet food products	South East Asia is a lower cost source for wet cat food than the U.S.
The trend to more highly differentiated value-added pet food items should help U.S. exporters who have the technology to develop those items for this market.	Typical sizes of U.S. pet food packages are larger than most Japanese packages; package changes may be needed for the Japanese market

*Exchange rate for 2001 of \$1 = ¥122.20

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

Entry Strategy

The Japanese pet food market is highly competitive. Despite steady increases in the size of the market, many companies participating in the pet food sector have found it difficult to be profitable. For example, two large U.S. companies have withdrawn from direct participation in the market in recent years.

For new-to-market companies, the following approach is recommended when seeking to enter the Japanese market.

1. Visit Japan and see first-hand the market conditions. Conduct market checks to see how and where competitive products are sold, what the package sizes are, and price points.
2. Talk with players in the pet food industry, including potential customers and partners.
3. Determine if there is a niche for your product. Focus on attributes other than price to differentiate your products, in particular value-added benefits such as new varieties, health claims, packaging improvements or the like.
4. To reduce costs of establishing a separate office, seek out companies with established ties in the pet food industry who can introduce your products and profitably add it to their current line of products. Making sure the partner is a respected and trustworthy representative is critically important.
5. Be willing to tailor your product for Japan in terms of package sizing and product type.
6. Understand that penetrating the Japanese market requires great patience, perseverance, and regular servicing.

Market Size, Structure, Trends

Cat and dog food sales in Japan have been growing at 2.9% per year for the past five years. Sales by year since 1997 appear below.

Pet Food Market Size

	Cat Food	Dog Food	Total
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Year	Quantity MT	Sales (¥ bil.)	Volume (\$ mil.)	Quantity MT	Sales (¥ bil.)	Volume (\$ mil.)	Quantity MT	Sales (¥ bil.)	Volume (\$ mil.)
1997	247,100	94.8	778.3	442,800	125.7	1,032.0	689,900	220.5	1,810.3
1998	253,100	97.1	800.5	463,300	131.5	1,084.1	716,400	228.6	1,884.6
1999	260,400	99.3	874.5	479,000	135.8	1,196.5	739,400	235.1	2,071.4
2000	269,500	101.7	938.2	493,100	139.0	1,282.3	762,600	240.7	2,220.5
2001 (Est.)	280,000	104.0	851.1	506,900	142.2	1,163.7	786,900	246.2	2,014.7

Source: Fuji Keizai

Average Annual Exchange Rates:

1997 = ¥121.8/\$

1998 = ¥121.3/\$

1999 = ¥113.5/\$

2000 = ¥108.4/\$

2001 = ¥122.2/\$

Product Type:

Approximately 57% of cat food sales are wet type (can), and 42% are dry type (box or package). For dog food, 47% are dry, 24% wet, and 17% semi-moist.

Pet Food Market Size by Product Types in 2001

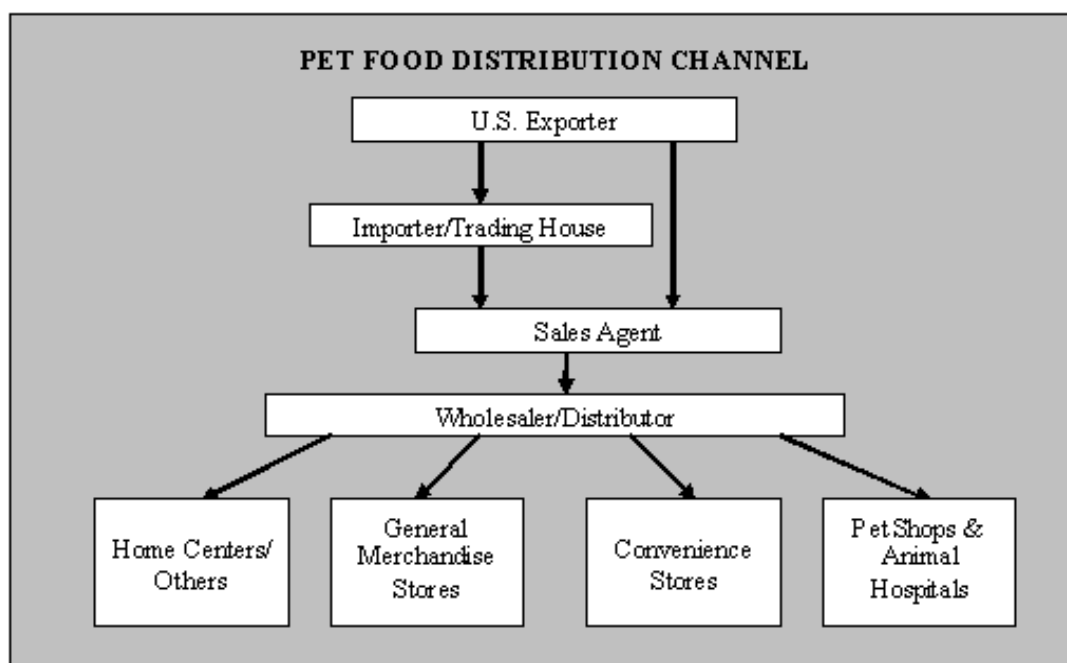
Type	Cat Food			Dog Food		
	Value		%	Value		%
	(¥ bil.)	(\$ mil.)		(¥ bil.)	(\$ mil.)	
Dry	43.8	358.4	42.1	66.7	545.8	46.9
Semi-Moist	0.2	1.6	0.2	24.4	199.7	17.2
Wet	59.3	485.3	57.0	34.1	279.1	24.0
Other	0.7	5.7	0.7	17.0	139.1	12.0
Total	104.0	851.1	100.0	142.2	1163.7	100.0

Source: Fuji Keizai

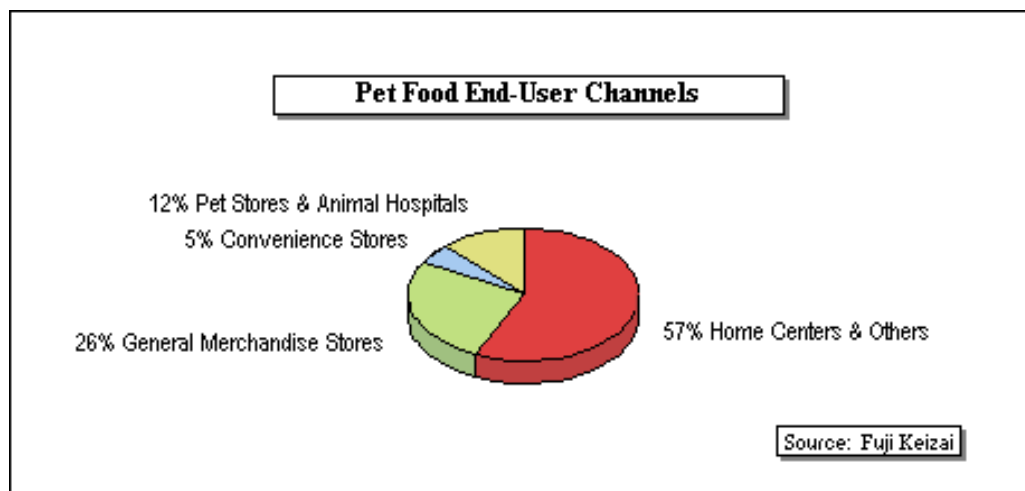
Both wet and dry types of pet foods have been growing at relatively similar rates and are expected to continue to grow in the future.

Distribution Channel:

Imported pet food products normally pass through trading houses or importers to the sales agent, and in turn these pass through wholesalers and distributors to the end-user outlets.



The dominant channel for pet food sales are home centers, which account for 57% of total sales, followed by general merchandise stores such as supermarkets and department stores (26%), pet stores and animal hospitals (12%) and convenience stores (5%).



Home centers have become more popular shopping venues for pet foods in recent years because their scale permits them to

carry large sizes of many different brands at discount prices. Supermarkets also carry many brands but usually only in smaller sizes, while convenience stores sell primarily the smallest sizes and have only limited shelf space for 3 or 4 brands.

Pet Food Imports:

Cat and dog food imports in 2001 were 469,946 MT, valued at 74.1 billion Yen (\$606 million). Imports represent 60% of the total market on a tonnage basis for cat and dog food in Japan.

Generally speaking, cat and dog food production costs are lower outside Japan, which helps explain the large share for imports.

Cat and Dog Food Imports into Japan

Year	Quantity (MT)	Value	
		(¥ bil.)	(\$ mil.)
1997	426,481	72.3	593.6
1998	434,324	75.2	620.0
1999	466,895	74.3	654.6
2000	482,953	71.6	660.5
2001	469,946	74.1	606.4

Source: Japanese Ministry of Finance Import Statistics

The U.S. is the leading exporter of cat and dog food to Japan. The U.S. share of imports has been growing in recent years, increasing from 40.1% in 1999 to 45.0% in 2001. U.S. exports of cat and dog food to Japan totaled 33.3 billion Yen (\$272 million) in 2001, up from 29.8 billion Yen (\$262 million) in 1999. The United States in particular is a major supplier of wet and dry dog food and dry cat food.

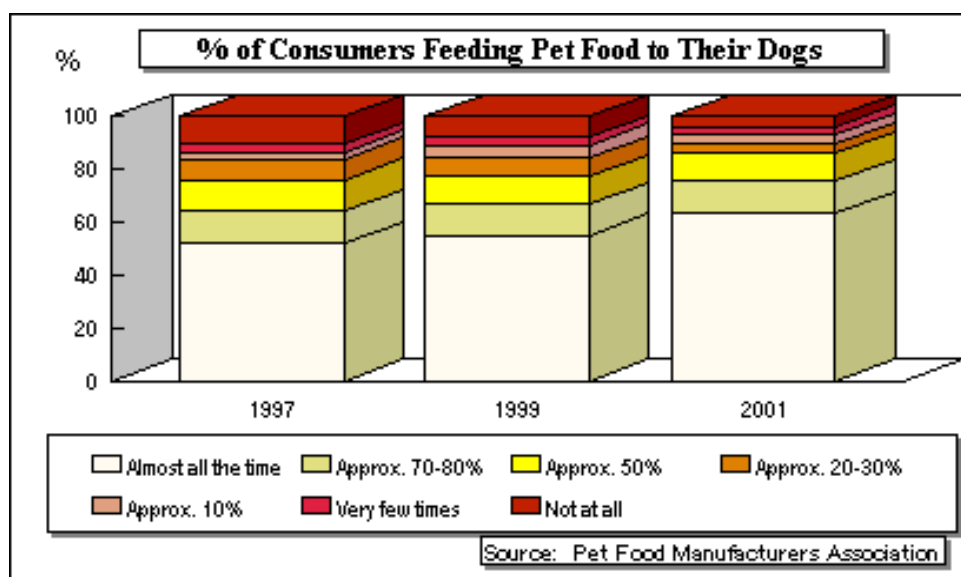
1999			2000			2001		
Value		Share %	Value		Share %	Value		Share %
(¥ bil.)	(\$ mil.)		(¥ bil.)	(\$ mil.)		(¥ bil.)	(\$ mil.)	
29.8	262.6	40.1	31.1	286.9	43.4	33.3	272.5	45.0
18.5	163.0	24.9	17.4	160.5	24.3	17.7	144.8	23.9
16.1	141.9	21.7	15.0	138.4	20.9	14.0	114.6	18.8
9.9	87.2	13.3	8.1	74.7	11.4	9.1	74.5	12.3
74.3	654.6	100.0	71.6	660.5	100.0	74.1	606.4	100.0

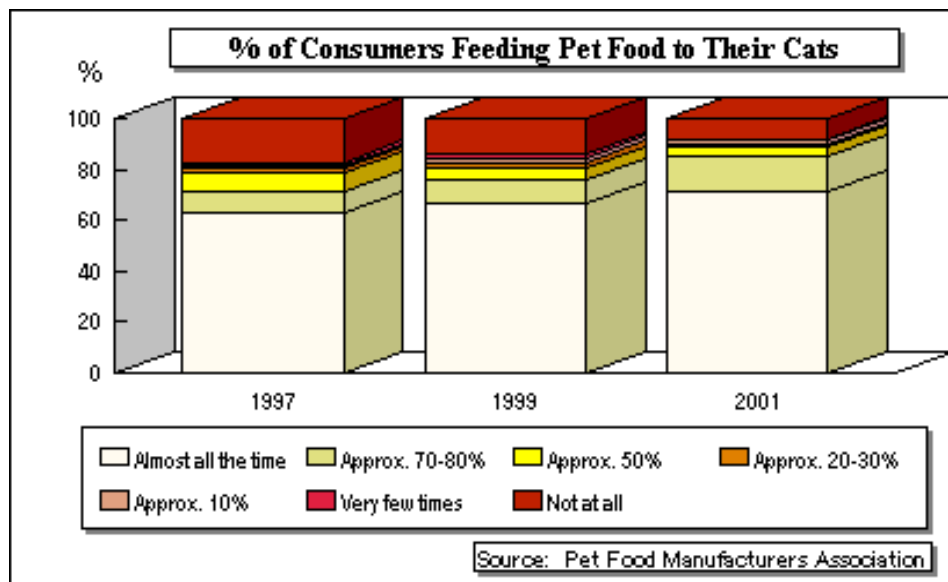
Source: Japanese Ministry of Finance Import Statistics

Trends:

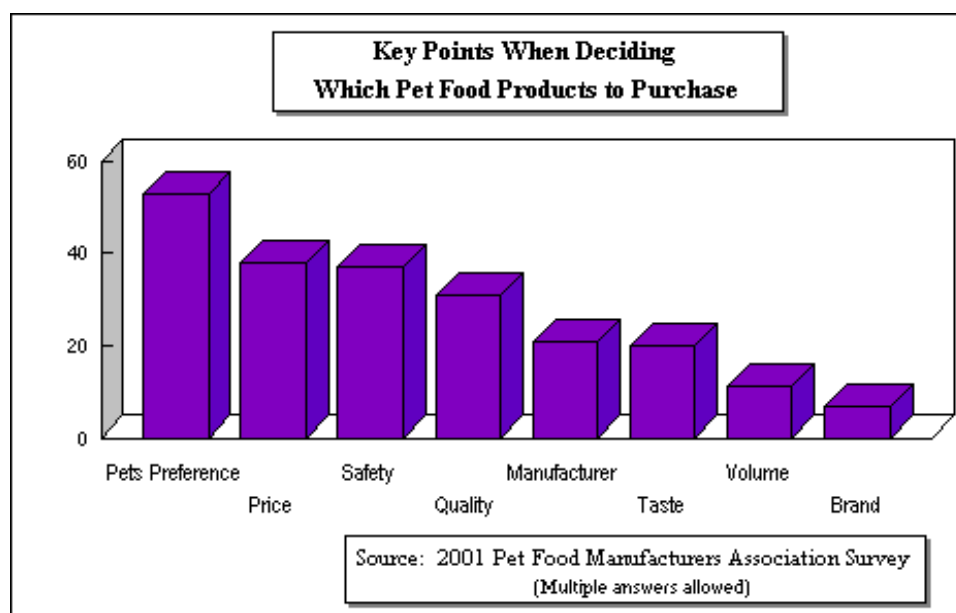
There are several trends influencing the pet food market in Japan.

1. Large package sizes, especially in home centers, are becoming more popular as consumers seek to reduce costs of pet food. This is especially true for dog food.
2. Pet food companies are developing value-added products targeting specific niches in an effort to compete on attributes other than price, and hence improve profitability.
 - For example, Nippon Pet Food's Vita-One brand markets products based on the concept of the various stages of a dog life such as "For Growing Period" and "For Senior Period".
 - Hills-Colgate brand "Science Diet" features a scientifically balanced nutrition approach.
 - Nippon Pet Food promotes vitamins and functional ingredients in its products.
3. According to a survey by the Pet Food Manufacturers Association, consumers are buying pet food more frequently rather than relying on table scraps to feed their pets. Among dog food owners, 63% indicated they use commercial pet food "almost all the time" compared to 52% in 1997 and 71% of cat owners said they use pet food "almost all the time" compared to 63% in 1997.





4. When deciding which pet food product to buy, consumers first consider the kind of food the pet normally likes (53%), followed by price (38%), safety (37%), and quality (31%).



Company Profiles

A list of the top pet food companies in Japan for both cat and dog food appears below:

Leading Cat Food Companies in Japan

Company Name	Estimated	2001 Sales	Market Share %
	(¥ billion)	(\$ million)	
Nestle Purina	26.1	213.6	25.1
Master Foods	19.2	157.1	18.5
Maruha Pet Food	15.4	126.0	14.8
Nisshin Pet Food	8.0	65.5	7.7
Pet Line	6.2	50.7	6.0
Nippon Pet Food	4.3	35.2	4.1
Inaba Pet Food	4.1	33.6	3.9
Unicharm Pet Care	3.6	29.5	3.5
Others	17.1	139.9	16.4
Total:	104.0	851.1	100.0

Source: Fuji Keizai

Leading Dog Food Companies in Japan

Company Name	Estimated	2001 Sales	Market Share %
	(¥ billion)	(\$ million)	
Master Foods	29.8	243.9	20.9
Hills-Colgate	15.7	128.5	11.0
Nippon Pet Food	12.2	99.8	8.6
Unicharm Pet Care	9.7	79.4	6.8
Nestle Purina	7.3	59.7	5.1
Nisshin Pet Food	7.1	58.1	5.0
Sun Rise	3.7	30.3	2.6
Others	56.7	464.0	40.0
Total:	142.2	1,163.7	100.0

Source: Fuji Keizai

SECTION III. COSTS AND PRICES

The Japanese pet food market has been highly price driven during the past decade as companies

have sought to expand share at the expense of profitability. Below is a rough indication of some of the costs that an exporter faces.

Tariff rates: 0%

Inspection fees and customs brokers fee: Usually 1-3% of value of the shipment.

Cargo unloading, transport and storage fees: Usually 3-5% of the value of the shipment.

Consumption tax: 5%

Average mark-ups between different stages of the marketing chain:

Importer 5-10%

Sales Agent 50-70%

Wholesaler/distributor 15-25%

Retailer 30%

Other costs: Many of the large pet food companies have allocated substantial funds for both advertising (TV, newspaper, magazine and PR) and for promotion (rebates, special sales, and consumer campaigns). As much as 15-20% of sales have gone to advertising and 10-15% of sales to promotions.

SECTION IV. MARKET ACCESS

Pet Food Regulations *

As pet food is not for human consumption, it is not subject to the Food Sanitation Law and U.S. pet food products that meet AAFCO (Association of American Feed Control Officials) standards are usually accepted by Japan. However, product which contains antibiotics or antibacterial agents is subject to the Pharmaceutical Affairs Law. As with all imports to Japan, quarantine and customs laws apply as well as anti-monopoly regulations. However, the labeling standards applicable to pet food are a set of industry established labeling codes and fair competition regulations. The labeling code has three parts: mandatory labeling information for pet food, standards for representing pet food as total nutritional food, and labeling restrictions to prevent unjust representation.

Labeling *

Definitions of the Three Types of Pet Food, according to the Pet Food Fair Trade Association, are as follows:

1. *Total Nutritional Food*: Food that is sufficient to maintain the health of the animal by feeding only the given food plus water. The product package must also specify the age of the pets for which the product is intended, such as 1) pregnancy/lactation stage, 2) puppies or kittens/growth stage, 3) fully grown dog/cat/ maintenance stage. Only products that adhere to all of these standards can display the term "all stage" or similar wording on the product's package.

2. *Snack Food*: Products that are intended for use as snacks or rewards. These products must be described as snack food or "oyatsu" on the product package.

3. *Food For Special Purposes*: These types of products are intended to supplement the main diet of the pet. Examples are nutritional supplements or products intended to increase the palatability of the main meal. "Nutritional supplement", "Calorie supplement", "Side dish", "Special Diet Food" or similar wording can be used on the product's package. However, displays that cause confusion between "Total Nutritional Food" and "Food For Special Purposes" must not be used.

Mandatory Labeling Information is as follows:

1. Clear statement that the product is intended for use as dog or cat food;
2. The purpose of the pet food, i.e., it must state that the product is intended for use as "total nutritional food," "snack food," or "food for special purpose";
3. Net weight;
4. Method of feeding;
5. Date of manufacture (year and month) or Use by Date
6. Component analysis;
7. Raw materials;
8. Country of origin; and
9. Name and address of the manufacturer, distributor or importer.

The information listed above must be written in Japanese.

(Source: Pet Food Fair Trade Association)*

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

For those with further questions, the U.S. Agricultural Trade Offices in Japan offer assistance at the following addresses:

Osaka ATO:

American Consulate General, Osaka-Kobe,
2-11-5, Nishi Tenma, Kita-ku, Osaka City, Osaka 530-0047, Japan
Tel: 81-6-6315-5900 Fax: 81-6-6361-5397
E-mail: atoosaka@fas.usda.gov

Tokyo ATO:

Toshin Tameike Bldg. 8F.
1-1-14, Akasaka, Minato-ku, Tokyo 107-0052, Japan
Tel: 81-3-3505-6050 Fax: 81-3-3582-6429
E-mail: atotokyo@fas.usda.gov

There also is a Pet Food Manufacturers Association in Japan to which most pet food manufacturers belong. The contact information is:

Pet Food Manufacturers Association:

Toyota Bldg. 4 Floor
2-6-10, Yaesu, Chuo-ku, Tokyo 104-0028, Japan
Tel: 81-3-3281-0155 Fax: 81-3-3281-0156

In addition, the Foreign Agricultural Service website at <http://www.fas.usda.gov> provides country specific information that U.S. exporters can access.